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<b>Joint Policy:</b>	<b>Prompt Payment Discounts</b>	
<b>Issue Date:</b>	<b>November 9, 2005</b>	
<b>Date Last Revised:</b>	<b>November 1, 2006</b>	

## PROMPT PAYMENT DISCOUNTS

### Executive Summary

This policy is issued jointly by the Office of the Comptroller (CTR) and the Operational Services Division (OSD) regarding the use of Prompt Payment Discounts in MMARS to maximize the savings to Commonwealth agencies from prompt payment discounts offered in Commonwealth contracts. This policy applies to all payments made by the Commonwealth and applies to all relevant MMARS policies.

One of the benefits of MMARS is the ability to automatically calculate discounts for prompt payments to vendors. These discounts are hard dollars saving retained by departments for their use.

### Discount Policy

Compliance with the [Commonwealth's Bill Payment Policy](#) should be considered successful only if payments are issued on the last possible day to take advantage of the best available prompt payment discount, but no later than 30 days. Because the Commonwealth earns interest on funds, if payments are released early with no reciprocal benefit, the Commonwealth loses valuable investment income. The Commonwealth's goal of consistent timely bill paying via [Electronic Funds Transfer](#) (EFT) should give departments leverage in negotiating prompt payment discounts.

Prompt Payment Discount (PPD) terms become available when a procurement requires or requests, and a bidder submits in their response, discounted prices based on the assumption that departments will pay their bills more quickly in order to receive lower prices. Having prompt payment discount options in contracts is advantageous to both contractors and purchasing departments.

Contractors benefit from PPD by increased, usable cash flow as a result of fast and efficient payments for commodities delivered or services rendered. Contractors who participate in the Electronic Funds Transfer (EFT) initiative further maximize this benefit by ensuring that funds are paid directly to their designated accounts, eliminating the impact of check clearance policies and traditional mail lead time or delays.

The Commonwealth benefits because the contractor's cost of products and services are further reduced by taking advantage of the Prompt Payment Discount.

Many Statewide Contracts issued by the Operational Services Division contain Prompt Payment Discount terms. Effective immediately upon the issuance of this policy, if a department is

purchasing from a statewide contract that includes Prompt Payment Discount terms, it must schedule payments in order to take advantage of discount(s), whenever possible.

Departments must check the Master Agreement (MA) document to identify the prompt payment discount options available from that contract and make sure that payments are scheduled to take advantage of the greatest amount of savings. All payment requests should be reviewed and, if approved, processed within 9 calendar days if there is a 10 day discount offered to allow MMARS to take the maximum discount available. If a 10 day discount is not offered but other PPD terms (15, 20 and/or 30 days) are offered, departments should review and, if approved, process all payment requests to take advantage of the greatest discount available.

In addition, Departments are strongly encouraged to require the submission of Prompt Payment Discounts when issuing their own departmental RFRs which can be used as a basis for selection.

**Even if a Department has not included the Prompt Payment Discount Form as part of the RFR process, or for contracts when a procurement is not required, the Department is strongly encouraged to have a Contractor complete a Prompt Payment Discount Form during the contract execution, renewal or amendment process to ensure that Prompt Payment Discounts are available to departments to the maximum extent possible.**

### MMARS Functionality

MMARS automates the taking of vendor offered discounts when payments are processed. As a result of analyzing the current usage of discount terms in Comm-PASS and identifying opportunities for greater department savings, there are process improvements for discount functionality being implemented immediately for FY06.

- \* *Issue: Discounts offered by vendors were entered literally in MMARS encumbrances and payment requests. This delayed receipt of payment to vendors by one business day.*
  - o When entering new MA documents with negotiated prompt payment discounts in MMARS, OSD and departments will need to deduct one day when entering. As an example, if the negotiated discount is 1%, 20 days, departments should enter 1%, 19 days. While the contract terms will remain at 1%, 20 days, making this adjustment in MMARS will ensure that the payment process is completed in sufficient time to issue the payment in accordance with the CTR Bill Paying Policy. MMARS will schedule and deliver the payment to Treasury on day 19 and treasury will issue payment to the vendor on day 20
- \* *Issue: Contracts with available discount terms were not easily identifiable when an encumbrance is processed.*
  - o Most statewide contracts contain discount terms and this information can be found in the MA document.
  - o Department RFRs are strongly encouraged to require discount terms when issuing departmental procurements.
- \* *Issue: Vendors offered a variety of discount payment dates. While each can be system supported, the burden then falls on the department to accelerate bill paying review and processing by contract.*
  - o OSD will be standardizing the prompt payment discount terms available on all new statewide contracts and will be working with contractors over time to standardize existing discount terms based on a 10, 15, 20 and 30 day payment turn-around.

- OSD has modified the Prompt Payment Discount Form to standardize discount terms options to the following 4 terms:
  - 10 days - \_\_\_\_ %
  - 15 days - \_\_\_\_ %
  - 20 days - \_\_\_\_ %
  - 30 days - \_\_\_\_ %

A copy of the revised Prompt Payment Discount Form is attached to this policy. Departmental RFR's are strongly encouraged to incorporate these same options. (Delete the comment box when the policy is issued)

- \* *Issue: Departments failed to enter an invoice receipt date and, as a result, the system populated the invoice receipt date with the data entry date and the payment was issued outside the discount terms and the discount was inappropriately taken.*
  - The importance of date stamping, tracking, and properly entering the invoice receipt date is critical to insuring discounts are taken in accordance with contract terms.

### **Options**

MMARS gives departments the ability to enter discount-pricing percentages that will automatically calculate discounted payment amounts. Vendor discount information can be entered at three levels:

- \* At the vendor level, entered on the VCUST table, which will result in an "across the board" discount;
- \* At the encumbrance level, whereby:
  - Statewide contract discount terms will be managed by OSD; and
  - Departments will be able to enter terms negotiated for a specific contract.
- \* At the payment level - if noted on a vendor's invoice, it should be entered on the individual payment (PRC).

Discount precedence applies when discount information is entered in more than one level. A discount at the vendor level applies if no other discount is indicated. A discount at the encumbrance level supersedes a vendor level discount, and a discount at the payment request (PRC or GAX) level supersedes any other discount information.

### **Management Reports**

New summary reports of department discounts taken and not taken will be developed and made available to Chief Fiscal Officers.

### **Internal Controls**

Please see Policy on [Contracts – Internal Controls for Payments.](#)

### **Records Management.**

In accordance with 815 CMR 10.00, the department is the keeper of the official record copy of invoices. MMARS is the official record of the encumbrance and payment documents and will supersede any paper copies of the same information. The contract/procurement/payment file must contain, or refer to the location of, all documentation related to the particular payment involved. A department is responsible for retaining and archiving contract records in accordance with the disposal schedules issued by the Secretary of State Records Conservation Board. Please see CTR Policy Chapters "[Other - Records Management](#)".

## **Information Sources**

### Related Policies:

- [Key State Finance Law Compliance Appointments and Responsibilities](#)
- [Department Head Signature Authorization and Electronic Signature for MMARS Documents](#)
- [Contracts P](#)
- [Accounts Payable Policies](#)
- [Records Management Policies](#)
- OSD [Procurement Information Center \(PIC\)](#)

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### Legal Authority –

- [Expenditure Classification Handbook](#);
- [M.G.L. c. 7A](#) (Office of the Comptroller); [M.G.L. c. 29](#) (State Finance Law);
- [M.G.L. c. 133](#) (Uniform Electronic Transactions Act); [M.G.L. c. 30, § 65](#) (Legal Services);
- [M.G.L. c. 29, § 29D](#) (Debt Collection); [M.G.L. c. 29, § 29E](#) (Revenue Maximization);
- [M.G.L. c. 30, § 27](#) (Revenue Receipt); [M.G.L. c. 10, § 17B](#) (Revenue Receipt);
- Massachusetts Constitution [Article LXIII Section 1](#) (Revenue Receipt);
- [M.G.L. c. 7, § 22](#) (OSD – Goods and Services); [M.G.L. c. 30, §. 51](#); (OSD – Goods and Services) [M.G.L. c. 30, §. 52](#); (OSD – Goods and Services)
- [M.G.L. c. 29, §. 29A](#) (Consultants) (Level III – Executive only);
- [M.G.L. c. 29, §. 29B](#) (Human/Social Services) (Level III - Executive only)
- [M.G.L. c. 29, § 27B](#) (IT equipment)
- [M.G.L. c. 15A](#) and [M.G.L. c. 73](#) (state and community colleges);
- [M.G.L. c. 75](#) (UMASS); General or special laws governing expenditures;
- [Massachusetts Executive Orders](#) (Level III – Executive Only);
- [Administrative Bulletins](#) (Level III – Executive Only);
- [Comptroller regulations](#) (815 CMR 2.00 - 10.00);
- [M.G.L. c.29, § 66](#) (State Finance Law Violations)
- [M.G.L. c. 30, § 39G](#) late penalty interest on horizontal construction and maintenance projects (roads, bridges, etc.)
- [M.G.L. c. 30, § 39K](#) late penalty interest on vertical construction and maintenance projects (buildings)
- [M.G.L. c. 79, § 37](#) interest payments under certain conditions on Eminent Domain Taking
- [M.G.L. c. 164, § 94D](#) penalty interest for utilities, which are not paid within 55 days from the date of the bill
- [Comm-PASS](#)
- [Comm-PASS Policies](#)
- [801 CMR 21.00](#)
- [808 CMR 1.00](#)

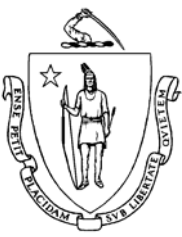
### Attachments

- [Quick Reference – State Grants and Federal Subgrants](#)
- [Quick Reference – Commodities and Services](#)
- [Quick Reference – Subsidies](#)
- [Quick Reference – Interdepartmental Service Agreements \(ISAs\)](#)
- [Quick Reference – Interdepartmental Chargebacks](#)
- [Quick Reference – Commodities and Services, Grants, Subsidies, ISAs and Chargebacks](#)
- [Commonwealth Terms and Conditions Form](#)
- [Commonwealth Standard Contract Form](#)
- [Commonwealth Terms and Conditions for Human and Social Services](#) (Level III - Executive Only)
- [Standard Contract Amendment Form](#)
- [Purchase Order for Commodities and/or Services](#)

- [Change in Contractor Identify Form](#) (Change in business structure or contract assignment)
- [Contractor Authorized Signatory Listing Form](#)
- [Electronic Funds Transfer \(EFT\) form](#)
- [Form W-9 \(Massachusetts Substitute W-9 Form\)](#) (if not listed as vendor in the MMARS Vendor Customer file)
- [MMARS transaction Authorization/Records Management Form](#)
- [Consultant Contractor Mandatory Submission Form](#)

[CTR Help Desk](#)

**November 1, 2006.** Removed language referencing the Knowledge Center and updated relevant links to Mass.gov/osc portal site.



## COMMONWEALTH OF MASSACHUSETTS

### Prompt Pay Discount Form

**Prompt Payment Discounts (PPD).** All contractors entering into business with the Commonwealth must agree to provide a Prompt Payment Discount (PPD) for receiving early and/or on-time payments unless the bidder can provide compelling proof that it would be unduly burdensome. Contractors benefit from PPD by increased, usable cash flow as a result of fast and efficient payments for commodities or services rendered. Contractors who also participate in the Electronic Funds Transfer initiative will maximize their benefit by ensuring that funds are paid directly to their designated accounts, thus eliminating the impact of check clearance policies and traditional mail lead time or delays. Payments that are processed electronically can be tracked and verified through the Comptroller's Vendor Web system. The Commonwealth benefits because contractors reduce the cost of products and services through the applied discount. Bidders must submit agreeable terms for Prompt Payment Discount offerings using this PPD form with their proposal, unless otherwise specified by the PMT. All Prompt Payment Discounts must be based on a 10, 15, 20 and/or 30 day turn around time for payments. While bidders have flexibility in determining the actual % discount(s) offered to the Commonwealth, a bidder must base that discount using only 10, 15, 20 and/or 30 days and by inputting that discount below into the appropriate row(s) under the column entitled "% Discount Off Proposed Price" beside the appropriate turn around time(s) also listed below. The Procurement Management Team (PMT) will review, negotiate or reject the offering as deemed in the best interest of the Commonwealth. The requirement to offer PPD discounts may be waived by the PMT on a case-by-case basis if participation in the program would be unduly burdensome on the bidder. If a bidder is claiming that this requirement is a hardship or unduly burdensome, the specific reason must be attached to this PPD form.

<b>Bidder Name:</b>	
<p>All discounts offered will be taken in cases where the payment date is within the specified number of days listed below and in accordance with the Commonwealth's Bill Paying Policy, which may be found on the Comptroller's website. The turn-around-time for payments will be measured from a) date services were rendered, goods received or b) receipt of a valid invoice, whichever is later. If internal systems require an alternate method of measuring payment turn-around times, the Bidder must note the issues below or on an attached page if necessary to be considered by the PMT. In cases where the Bidder considers that offering a Prompt/Early Payment discount would be a hardship, the Bidder must clearly define the issues and reasons for said hardship.</p> <p>As an example of how to complete this form, if a Bidder is proposing that payments made within 10 days of invoice will receive a 5% discount off the contract price; payments made within 15 days of invoice will receive a 3% discount off the contract price; payments made within 20 days of invoice will receive a 2% discount off the contract price; and payments made within 30 days of invoice will receive a 1% discount off the contract price, then the bidder would insert under the "% Discount Off Proposed Price" column the prompt payment discount percentages proposed that correspond to the appropriate 10, 15, 20 and/or 30 day turn around time under the "Turn-around-time for Payments" column.</p> <p>The back of this form is intentionally left blank for the bidder to include comments, conditions or clarifications to the discounts proposed below. Bidders may also attach additional pages if necessary.</p>	
<b>% Discount Off Proposed Price</b>	<b>Turn-around-time for Payments</b>
	<b>10 Days</b>
	<b>15 Days</b>
	<b>20 Days</b>
	<b>30 Days</b>

I cannot offer a prompt pay discount because: